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GOVERNMENT POLICY
ON
Price and Wage Control
IN THE
Transition Period

Statement by

RIGHT HON. W. L. MACKENZIE KING
PRIME MINISTER OF CANADA

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Together with a Statement by
HON. HUMPHREY MITCHELL
MINISTER OF LABOUR


ON

Changes in Wage Control

OTTAWA, JANUARY 31, 1946



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Government Policy on Price and Wage Control in the Transition Period

Statement by the Prime Minister

Right Hon. W. L. MACKENZIE KING

More than six years ago, just after the outbreak of war, the Government of Canada embarked upon a program to prevent soaring prices and to preserve order and efficiency in Canada's economic structure. The Government refused to accept the view that serious inflation and economic disorder were inevitable consequences of war. Our country may justly claim to have pioneered in the field of anti-inflation control. Because the people of Canada have whole-heartedly supported this stabilization program, a sharp rise in the level of prices has been prevented. Orderly economic conditions have been maintained through six years of the most destructive war in the history of mankind. The anti-inflation program has succeeded beyond the most optimistic hopes expressed at the time of its introduction. Canada's record compares more than favourably with that of any other country in the world. In consequence, Canada faces the problems and readjustments of the post-war period in a relatively strong economic position. We have escaped so far the legacy of disruption and discontent which would have been the consequence of inflation.

The need has not yet passed for emergency measures to avert the threat of inflation and dislocation. Shortages both at home and abroad are still widespread and acute. The direct consequences of the war remain evident in many ways. At the same time, the conditions under which the stabilization program now operates have changed in a number of important respects. With hostilities over, the emphasis is on the progressive removal of emergency regulations. It is on the re-establishment, at the earliest feasible time, of a relatively free price and wage system.

The first objective of economic policy is a high level of employment and production. In working toward that objective Canada is seeking to reconstruct her trade on a peacetime basis. This changed atmosphere has its effect on the stabilization program. It is appropriate therefore to review the operation of the program in relation to the needs and circumstances of the readjustment period.

Over two years ago, in December, 1943, the Government announced certain important changes in its anti-inflation policy,

particularly with respect to the relation between price and wage control. At that time, at the very peak of our war effort, it was stated that, should the cost of living rise more than 3% and remain at that level for two consecutive months, the Government would review the whole program of price control and wage control and take appropriate action. Fortunately, there has been no need to review the policy for this reason, since in the intervening period the cost of living has risen by less than one per cent. In view of the changed conditions which we face today, the time has come to take appropriate steps in the direction of readjustment to more normal conditions.

Adjustment of Stabilization Program to Changing Conditions

The steps, which concern both price and wage control, have been thoroughly considered. They represent no weakening in the Government's intention of preventing inflation. They are simply an adaptation of the program to changing conditions—an adaptation which has been going on steadily since the end of the war. Indeed, from its very beginning, the stabilization program has been adapted to meet changing needs and circumstances. Thus, at the outset, fiscal policy was not unduly restrictive because there was available for use a surplus of manpower and industrial capacity. Similarly, in the early days, price control was largely of an informal character. It was principally concerned with breaking bottlenecks which tended to restrict supplies and with preventing and discouraging speculation. As Canada approached and finally reached a condition of full employment, and the insatiable demands of war diverted a larger and larger part of our production, the stabilization program was rapidly extended and intensified. Taxation was increased greatly, mainly in the form of progressive taxes on income and of special taxes on luxuries and less essential goods and services. The great Victory Loan drives were launched to pay for the conduct of war, and to siphon off and store for the future the purchasing power which could not then be matched by goods and services. The most striking measure was the introduction of an overall price ceiling, and of wage and salary control. This was the first comprehensive control of this kind to be undertaken by any of the democratic nations. Rationing of necessities was introduced when needed. Various controls over production and distribution were developed and extended. The program was buttressed by other controls over basic materials and manpower. These were introduced primarily for direct war purposes.

As victory approached, and as V-E Day and V-J Day came and passed, the controls over production of a restrictive type were

steadily removed and relaxed. By V-J Day only a few such controls remained. By the beginning of this year a variety of other controls over basic materials, manpower, and distribution had been removed. Corporate and personal income taxes were appreciably reduced in the last Budget. While the recent Victory Loan was larger than ever, it was designed to meet such financing needs for twice as long a period as were the loans which preceded it. Certain special war taxes were reduced or removed. This action had the effect of easing the pressure of price ceilings on a variety of so-called reconversion products. Price control itself has been maintained up to the present.

There has thus already been a gradual and realistic adjustment to the changed atmosphere and to post-war conditions. The Government has acted as promptly as was feasible in removing controls. It has sought, however, to avoid the obvious dangers of hasty and ill-considered removal of regulations still urgently needed. The process of adjustment will continue until all emergency controls are dispensed with.

The Purposes of the Stabilization Program

The purposes of stabilization have not changed. On several occasions since V-E Day the Government has made clear its intention to take every means to prevent the disruption of economic conditions which still threatens to result from the stresses and strains left by the world conflict. Five months have passed since final victory. Reconversion has made substantial progress. Nevertheless we still face conditions of possible inflation which, if not controlled, would unquestionably lead to startling increases in costs and prices, and in the general cost of living. It takes considerable time to change over a productive system from a war basis to a peacetime basis. It takes time for labour and machinery formerly engaged in the armed services and in war industry to produce additional food, housing, automobiles, and so on, in sufficient amounts to meet the high volume of current and accumulated demands. This is true even in countries like Canada and the United States where physical destruction and disorganization have not occurred.

Inflationary conditions are also a direct consequence of the world-wide shortages of necessities of life such as food, clothing, lumber and other building materials. World-wide shortages have resulted in soaring prices abroad. They have increased the urgent and pressing demands of overseas countries on Canadian supplies. In these circumstances, continuing need for a stabilization program

remains clear. The disaster of soaring prices and living costs must be prevented not only because of the injustices and suffering that would result therefrom but because it would arrest progress toward a healthy peacetime economy. Inflation would lay the basis for a severe depression. It would promote industrial strife and social conflict. The preservation of the stable price and cost structure, which we happily possess today, provides a sound basis for expanding peacetime markets both at home and abroad.

The Changed Conditions of Post-war Readjustment

There can be no question of abandoning the stabilization program at this juncture. There must, however, be a clear recognition that the conditions in which it operates are substantially different from those prevailing during actual hostilities. The stabilization controls which are still retained are, apart from fiscal measures, of an emergency character designed to deal with emergency conditions arising from the war. They are in no sense a permanent feature of the Dominion Government's activities. Nor is there any need for their indefinite continuance. It is the Government's declared intention to remove such controls at the earliest moment consistent with the prevention of inflation and the maintenance of a fair division of essential goods in short supply. This explains why the Government requested from Parliament the extension of its war emergency powers for the limited period of approximately one year. The emphasis is on the removal of emergency controls and on continuous examination of the need for those which are retained.

As already stated, the advent of peace has substantially changed the economic environment in which the stabilization program operates. In wartime, Government expenditures practically assured maximum production and employment. Business risks and the risks of unemployment were almost eliminated. Price control could be and, in fact, had to be fairly rigid. Price ceilings did not restrict imports or lead to excessive exports. External purchases and sales were controlled directly and were frequently the subject of inter-governmental contracts. Wage and salary controls were essential to the maintenance of effective price control. They were accepted with understanding and co-operation.

With the disappearance of war production and the consequent decline in Government spending, an expansion in civilian production and investment is being looked to in order to provide the bulk of employment. To provide jobs, there must be an incentive to permit business, large or small, to take the risks involved in expanding operations and in entering on new lines of activity.

Recent reductions in taxation, particularly in the excess profit tax, are a major step in this direction. The continued high level of demand, and the accumulation of deferred needs, combined with the relatively low level of Canadian costs, provide a favourable environment for such expansion. The reduction and removal of excise taxes has provided more leeway for the manufacturers of many "reconversion" goods. The administration of price control must at the same time, necessarily be more flexible than it was in wartime. Wage and salary control should be continued only to the degree essential in combatting inflation.

In reviewing the stabilization program, at this time, a further consideration should be mentioned. Its very success, and our good fortune in escaping the ravages and physical destruction of war, have resulted in our price structure today being substantially lower than the price levels of many of the countries with whom we trade. Especially is this true of the United Kingdom and the countries of Europe. The result is that to the exporters of these countries Canadian price ceilings frequently appear to be relatively low. On the other hand, the prices obtainable in export markets, for a number of Canadian commodities, appear very attractive to Canadian producers. There has never been a general price ceiling on exports. The problem, in this regard, has been largely one of assuring that domestic needs were adequately met. This has required the use of export controls and quota arrangements. For the time being, a number of such controls will have to be retained. On the import side, however, the domestic price ceiling might have restrictive effects, which the Government believes should be avoided, on our purchases from some countries. To date, no appreciable volume of imports from the United Kingdom and liberated countries has been excluded by the operation of the price ceiling. Offerings of such goods have been limited and, in the case of some essential goods, subsidy assistance has been provided. But the time is now arriving when these countries are seeking to re-establish their trade with Canada. While changes in exchange rates, such as that recently made by France, will in some cases, help to re-establish more normal price relationships, there is a continuing problem which must be faced. The importance of this question is emphasized by the fact that if permanent export markets are to be re-established in many of these countries, to which Canada is providing financial assistance, trade must become more of a two-way flow than it is at present.

To these and related questions the Government has given careful study. As a result a number of changes in the operation of the stabilization program have been made. Some of the changes

have already occurred or, as circumstances warranted, have developed gradually. There has been no sudden or widespread adjustment in the program nor is any such change contemplated. The policy of gradual adjustment has been amply justified by events in Canada and abroad. The further adjustments to be made now are additional steps in this process. The time is regarded as appropriate because of the marked progress in reconversion, the advanced stage of demobilization, and the problems in re-establishing external trade.

Flexibility in Price Control

The administration of price control has become, and is becoming, more flexible. From the beginning of reconversion, the Government has been determined that price control should not be allowed to restrict the expansion of peacetime production. In considering applications for price adjustments the distinction which the Prices Board very properly made between essential and non-essential goods during the height of the conflict has not been applied for some time. In wartime, what price adjustments were permitted were confined largely to more essential goods, the supply of which it was vital to maintain. In terms of the needs of peace, and the requirements of high employment, the distinction between essential and non-essential production in "pricing" policy no longer applies.

The Wartime Prices and Trade Board, in considering applications for price increases, has endeavoured and is endeavouring to give due weight to the need for sufficient incentive to allow a prompt expansion in civilian output. In some cases, where an industry *as a whole* can not demonstrate its financial need for a price adjustment, the Board has been and is prepared to allow adjustments for *particular firms* whose financial position warrants such a change. In extreme cases, and in the interest of maintaining needed production, the Board is prepared to consider adjustments on particular products even when the industry or the firm concerned cannot demonstrate that its over-all financial position is such as to warrant price relief. The Government's action in removing and reducing certain war taxes—such as the war exchange tax and the excise taxes on many household appliances and on automobiles—together with the removal of the sales tax on building materials, has eased the pressure of price ceilings on manufacturers of a large variety of reconversion goods. The primary purpose of these tax changes was not connected with price control. They have nonetheless provided flexibility in the

field where reconversion "pricing" problems would otherwise have been most numerous. They have greatly reduced the need for price ceiling adjustments.

So far as imports are concerned, the Prices Board is now administering its control of the prices of goods imported from countries such as the United Kingdom and France, in such a manner as not to exclude imports from the Canadian market. These countries have suffered grave material loss, and their costs and prices have risen seriously as a result of the war. Price control over imports from such countries will still be maintained, but not in a way that will prevent their goods from being offered to Canadian buyers. The exporters of the United Kingdom and liberated countries will, however, still have to meet competition in the Canadian market, if they are to rebuild any large volume of exports to this country.

Price Ceiling Suspensions

As a first step toward removal of price controls, it has been decided to suspend a number of non-staple articles from the provisions of the price ceiling. The list of articles suspended includes drugs, cosmetics, tobacco products, jewellery, books, games, novelties, millinery and a number of miscellaneous services. The detailed list will be announced by the Minister of Finance. The production and supply of most of the articles suspended from the price ceiling have improved to the point where material price increases are not anticipated. Expanding production, competition, and self-restraint on the part of the producers and distributors concerned should protect the public from serious price advances. A great many of the suspended items are of minor importance in the budget of the average household. It is now questionable whether the expense and effort of administering effective price control in these cases is in proportion to the benefits derived. Moreover, the Prices Board is finding it increasingly difficult to retain the services of sufficient skilled personnel. It is most desirable that the Board should concentrate its efforts on the more important commodities. For the reasons mentioned, the Government has decided upon this first step in "decontrol" of prices. It is recognized that some price increases may ensue. It is even conceivable that widespread and significant advances might occur. That is why price ceilings have been *suspended* instead of being finally removed. Should widespread and unreasonable increases follow, should unprincipled speculators attempt, for selfish ends, to abuse this latitude, the whole policy will be reconsidered. Where necessary, in such cases, ceilings will be reimposed.

Gradual Removal of Subsidies

In moving toward the period when price control will no longer be necessary, the Government believes that subsidy payments should continue to be kept to a minimum and eliminated as promptly as is feasible. Subsidies have played a vital part in checking the cumulative pressures of inflation. Subsidies do, however, result in artificial relationships between the returns received by producers and importers and the prices paid by final consumers. They represent a direct and conscious interference with the operation of the price system. Such interference should be eliminated as more normal relationships between supply and demand are re-established. As already stated, the Government's policy is to reduce and remove subsidies as promptly as is feasible. Following this policy, the Prices Board has already removed a number of less important subsidies. The Board will continue this process just as rapidly as is practicable. The whole structure of import subsidies has been carefully reviewed. As a result, the Government has approved a change in policy which will reduce their number and strictly limit the commodities to which import subsidies may be applied in future. The major subsidies, both import and domestic, such as those paid on important foodstuffs and textiles, are being constantly reviewed. Their reduction and removal will be undertaken step by step subject only to the needs of maintaining reasonable stability in the level of prices and living costs.

More Flexibility in Wage Control

Finally, certain steps are being taken to modify wage and salary control. Wage and salary controls are an essential feature of the stabilization program. Inflationary pressures are such that removal of wage control is not yet feasible. The Government, however, has no intention of interfering with the normal processes of collective bargaining to any greater extent or for any longer than is strictly necessary. In these circumstances, certain changes have been made as the first steps toward the ultimate removal of this form of control. The War Labour Boards, in dealing with applications for wage adjustments will now be guided by comparing wages in one plant or industry with other comparable plants or industries rather than by the former more rigid standard of gross inequalities and injustices. The War Labour Boards may also authorize an employer to vary wage rates on a basis which is otherwise reasonable in the circumstances, and which is consistent with maintenance of existing prices of goods and services. Wage increases granted under the Order will not be recognized as

grounds for price advances. If such were permitted, it would simply invite a series of price increases in line with every advance in wage rates—a process which would set the inflationary spiral in motion. Other changes in wage control permit free collective bargaining over most matters not concerned with basic wage rates, and provide for the eventual return of minimum wage regulation to the Provinces. These changes will provide more latitude for the operation of collective bargaining, and for the exercise of administrative discretion in minimum wage matters and working conditions by the Provinces. They are desirable in themselves. They are not likely to threaten stabilization, provided they are used in a reasonable and responsible manner by all concerned. The changes in wage control are accompanied by corresponding adjustments in the policy of salary control. Details of the changes in the Wage Order and Salary Regulations are being announced by the Ministers of Labour and National Revenue respectively.

Policy of Gradual and Carefully Controlled Readjustment

The measures which have been outlined constitute the first steps in a deliberate and carefully considered plan looking toward the eventual removal of price and wage controls. They are designed to meet the realities of the period of readjustment and, at the same time, to continue to protect The Canadian people from the economic and social disruption of inflation. They should preserve and permit the utilization of the great benefits which orderly economic conditions and stable prices can bring in our progress toward high peacetime employment. They provide for greater flexibility without weakening the essential fabric of the anti-inflation program.

The one satisfactory answer to the danger of inflation is more and more production. Given co-operation and support by the Canadian people, anti-inflation controls will keep prices in check while production, at home and abroad, is catching up with demand. Nothing would restrict a lasting increase in production and employment more than a sharp rise in prices which would cut demand down to the present restricted level of supply. To curtail demand, which is precisely what soaring prices would do, would be to reduce prospective markets and employment opportunities. The present gap between demand and supply must be bridged to the largest feasible extent by increasing supply, by producing more and more, rather than by restricting demand through high prices.

The Government's policy—one of gradual and carefully controlled readjustment—will permit price increases only when they

are needed. As time goes on, it may not rule out some gradual and moderate increase in wages and salaries, in the price level, and in the cost of living. It is no longer feasible to attempt rigid maintenance of the price level. It is quite conceivable that by the time full "decontrol" is achieved, the level of Canadian prices may be moderately higher than is the case today.

There is a great deal of difference between a gradual and planned policy of adjustment to post-war conditions, which may involve some modest increase in prices, and a policy of rapid removal of anti-inflation controls. The objective of the Government's policy is to continue to protect the people of Canada from a sharp upswing in prices and living costs, and from the inevitable aftermath of deflation, unemployment and distress. Its purpose is to protect the value of wages and wartime savings. It is aimed to help to open larger markets both at home and abroad, and thus hasten progress toward the high level of peacetime production and employment which is our leading economic objective. With the intelligent support of the Canadian people Canada's anti-inflation program will achieve its aim. It will bring our country through the most destructive war in history *and its aftermath* without the economic and social disruption which have been the sorry heritage of past conflicts.

Changes in Wage Control

Statement by the Minister of Labour

Hon. HUMPHREY MITCHELL

The Honourable Humphrey Mitchell, Minister of Labour, announced today that a number of amendments to the Wartime Wages Control Order 1943 will go into effect on February 15th.

He said:—

“The economic stabilization measures, by permitting an earlier and easier changeover from war to peacetime production, have protected the purchasing power of Canadian incomes whether they originate as old age and retirement pensions, children’s allowances, veterans’ pensions and allowances, mothers’ allowances, workmen’s compensation payments, or wages. In effect, the policy has been, and will continue to be, to protect the real value of all sources of income.

“Nevertheless, the War Labour Boards, composed equally of employee and employer representatives, have provided a means for review and revision of inconsistent wage rates within an industry, and notwithstanding limitations on wage rate revisions necessary to the stabilization policy, wage rates have, on the average, increased considerably more than the increase in the cost of living during the same period.

“The Cost of Living Bonuses payable under earlier Wage Orders and incorporated in existing wage rates in 1944, are part of this general wage increase.

“The Government nevertheless recognizes the desirability of lifting all emergency economic controls as quickly as possible. Naturally it is not to be expected that the pressures that make for inflation, developed during five years of war, would be dissipated in a period of a few months, and, in fact, inflation pressures are still strong.

“However, the Government now believes that it is possible to make a number of amendments in the Wage Control Order as a first step towards the orderly return to the normal processes of collective bargaining and provincial jurisdiction over wage matters. The success of the stabilization programme has been due to the co-operation given by the Provinces and employees and employers under the Dominion regulations. The amendments

give added flexibility in the adjustment of wage rates and working conditions, both of which are important. The amendments made are as follows:—

1. Effective June 30th, 1946, normal jurisdiction in the matter of minimum wage rates, hours of work, and vacations with pay, will be returned to the Provinces.
2. The present provision authorizing a War Labour Board to approve an increase in wage rates only where a gross inequality or injustice exists has been repealed, and the following substituted:—

‘A War Labour Board may—

‘Authorize or direct an employer to increase a single wage rate or the rates of a range established by him under this Order or pursuant to a direction of the National (or Regional) Board for an occupational classification of his employees if and to the extent that the National (or Regional) Board finds that such rate or rates are low in comparison with the rate or rates generally prevailing for the same or comparable occupational classifications in the same locality or, if there is no such occupational classification in that locality, then in the same or comparable occupational classifications in a locality which in the opinion of the Board is comparable; or may authorize an employer to *vary* a single rate or the rates of a range on such other basis and to such extent as in the opinion of the National (or Regional) Board is reasonable in the circumstances and consistent with the maintenance of existing prices of the goods and services which the employer sells.’

3. Freedom to bargain collectively is restored to employees and employers on questions of vacations with pay, off-shift differentials, hospital aid plans, annuities, pension plans and group insurance plans.

“Knowing as they do the ultimate benefit which both wage-earners and employers, and their respective organizations, will derive from their continued support of the economic stabilization policy, I am confident that during the important transition period of the next few months, they will lend their support to these new developments.”

Except where otherwise noted, the amendments to wage control come into force at February 15th, 1946.

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